



The State of the Economy and Prospects for Tax Revenue in Tennessee

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by
Albert E. DePrince, Jr.
Professor of Economics and Finance
Jennings A. Jones College of Business
Middle Tennessee State University
Murfreesboro, Tennessee
deprince@mtsu.edu



The State of the Economy and Prospects for Tax Revenue in Tennessee

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The Balance of News

Positive Signs Are Visible but Problems Remain

Ripped from the headlines: Asian growth improves

- Japan's economic recovery widens
- Japan business sentiment improves
- South Korea exports surge
- India's economic growth accelerates
- Hong Kong's retail sales surge

Ripped from the headlines: Growth prospects show improvement in Europe

- ECB predicts economic recovery in Europe
- German factory orders rise for eighth month
- German unemployment dips slightly

U.S. posting strong economic growth

- Fourth GDP quarter growth at 4.1% rate
- Forecasters see around 4.5% growth for first quarter

Policy remains accommodative

- Forecasters do not see change in Federal Reserve policy until August at the earliest
- Liquidity remains abundant, providing ample opportunity to restructure debt burden

International tensions remain

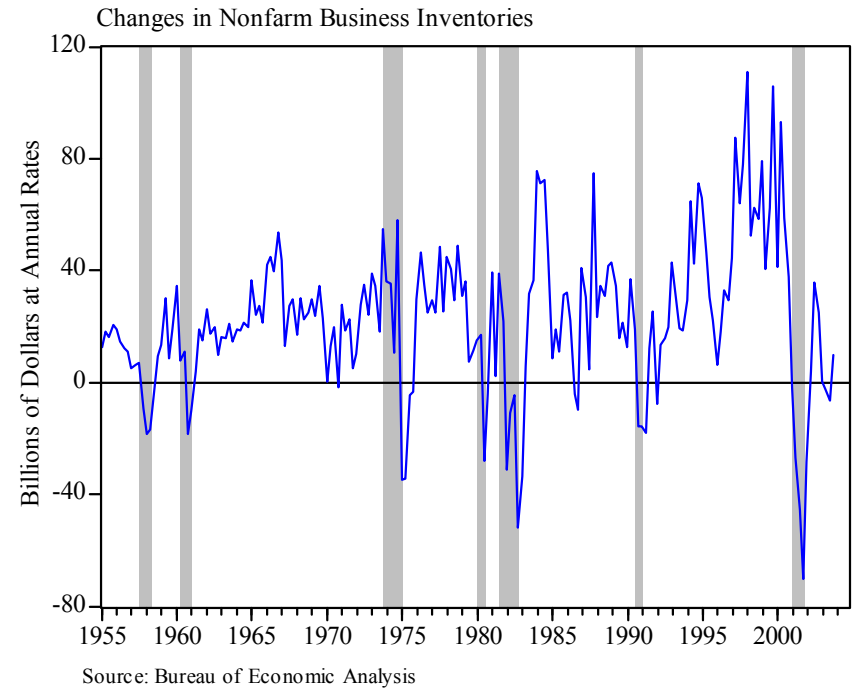
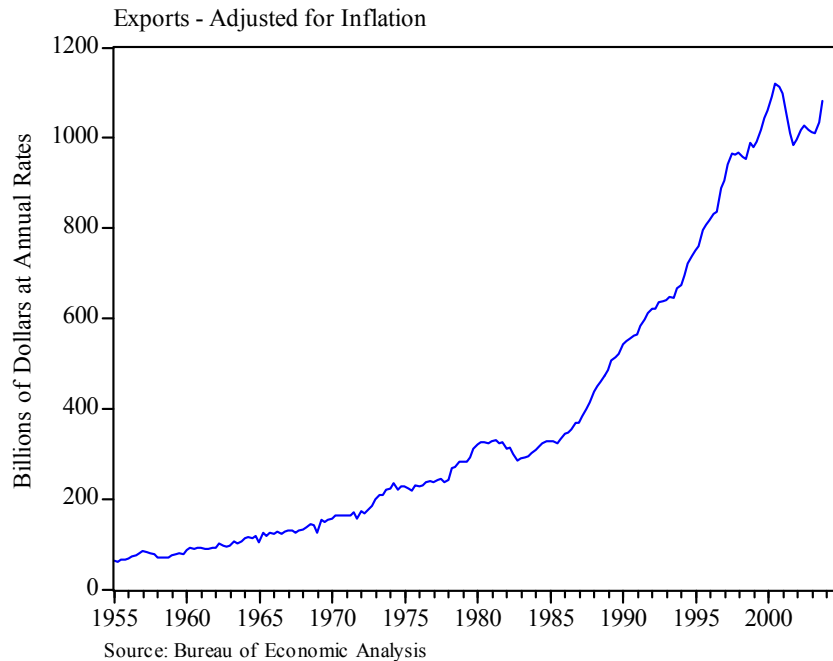
- EU Commission lowers growth forecast
- EU sees bleak budget picture
- U.S. current account deficit remains large
- Dollar remains under pressure

Domestic difficulties are also present

- Employment growth has become political hot potato
- Consumer confidence may become hostage of global terrorism
- Equity and bond markets in tug-of-war over likely direction of economy
- Deflation in goods-producing sectors remains a problem
- Housing starts and vehicles sustained by low interest rates

The U.S. Cycle in Perspective

Exports and Changes in Business Inventories



The U.S. Business Cycle in Perspective

Recovery in Technology Spending Dominates the Investment Spending Picture

Business equipment and software

- More than half of total is devoted to information-processing equipment
- Remainder is spread among industrial, transportation, and other equipment

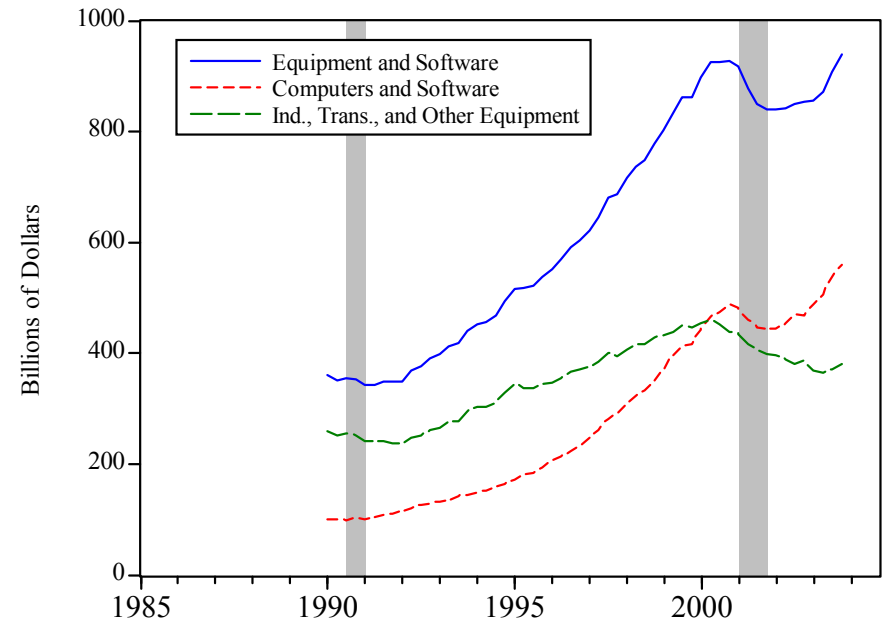
Falloff in spending on conventional equipment led the decline in spending on computers and software

Upturn in total investment spending has been concentrated in the technology area

- This is likely behind the big productivity gains in the current national economic recovery

Spending on conventional durable equipment still languishes

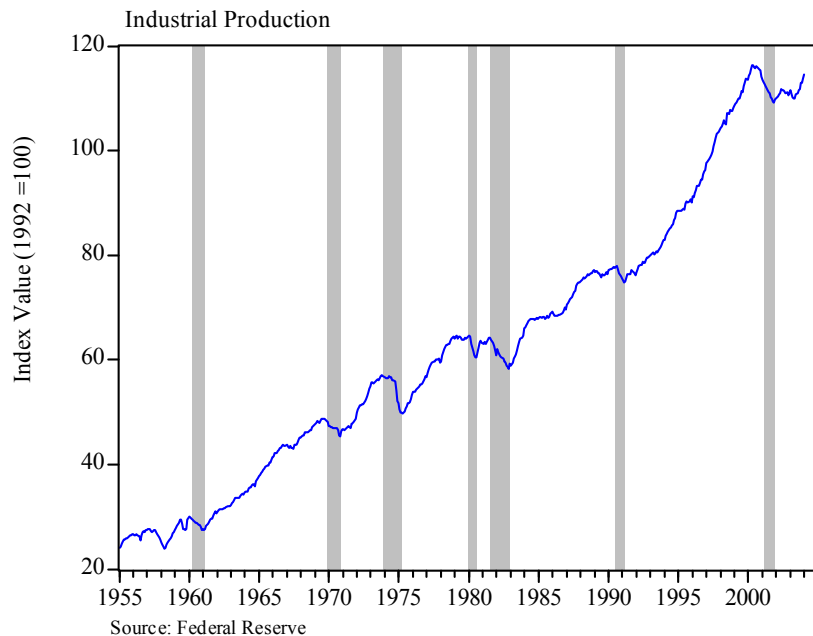
- This reflects excess capacity and uncertainty surrounding prospects for profit growth



Source: Bureau of Economic Analysis

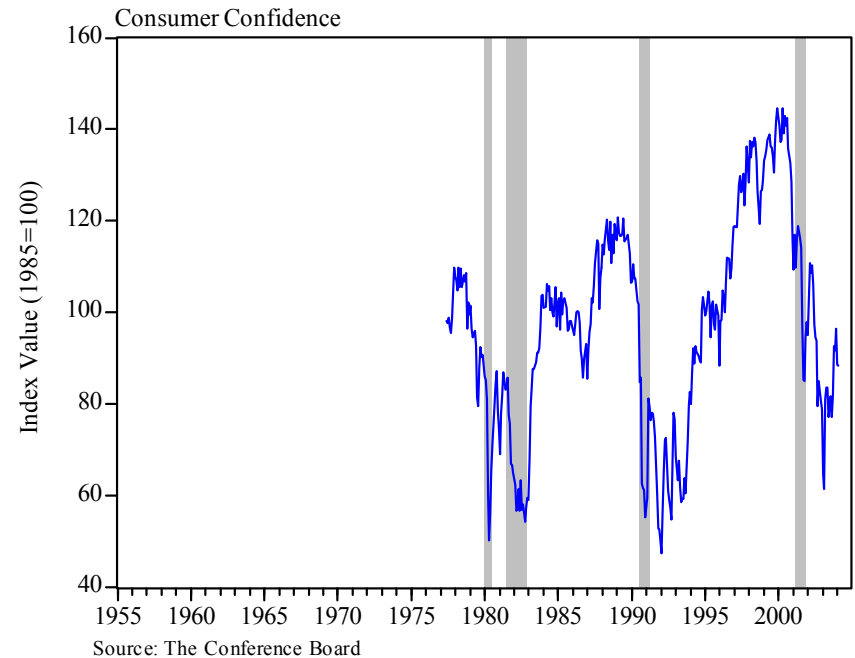
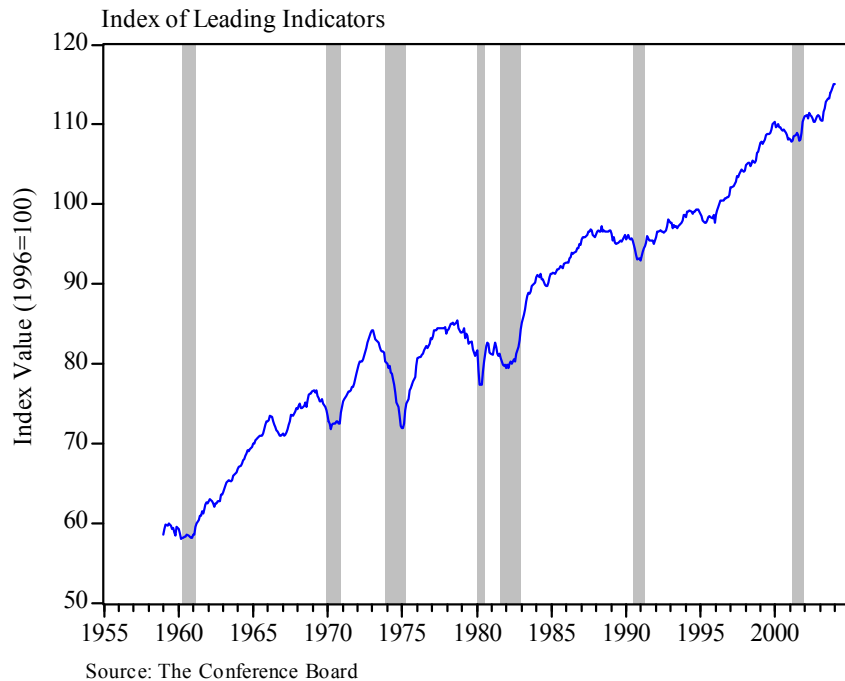
The U.S. Cycle in Perspective

Industrial Output and Initial Unemployment Claims



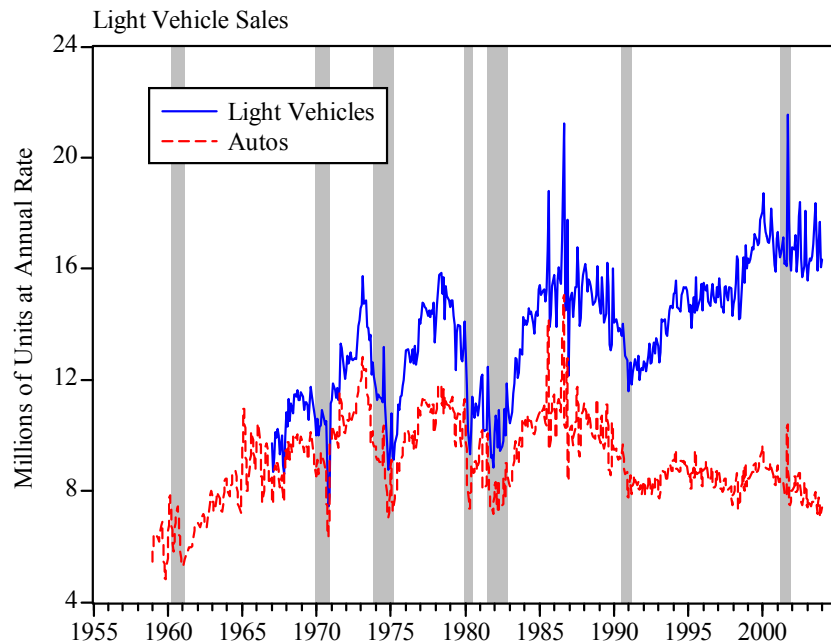
The U.S. Cycle in Perspective

Leading Indicators and Consumer Sentiment

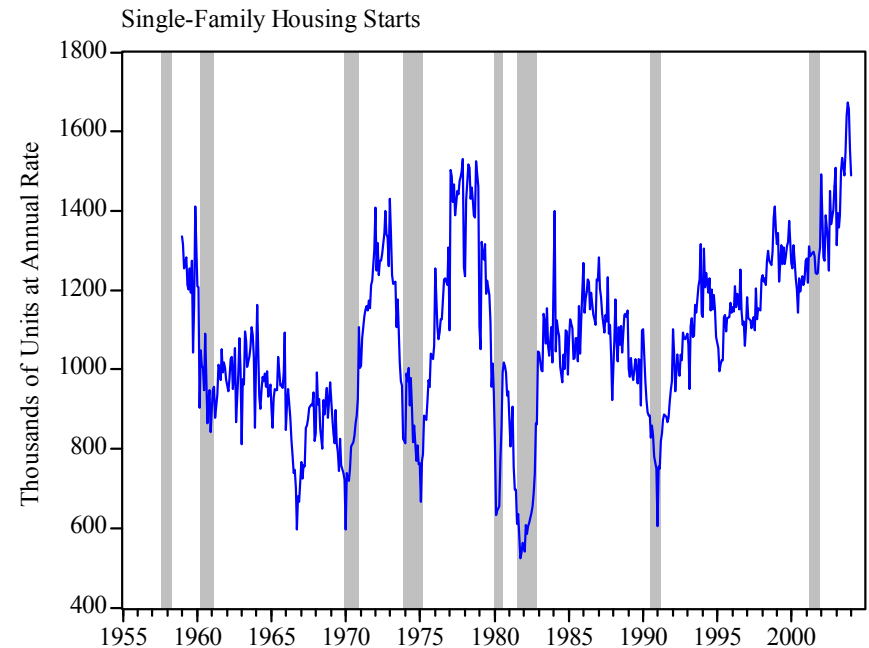


The U.S. Cycle in Perspective

Light Vehicle Sales and Housing



Source: Bureau of Economic Analysis



Source: Bureau of the Census

The U.S. Cycle in Perspective

Trend Movement in Productivity versus GDP Growth

Weak employment picture can be tied to
unprecedented strong productivity growth

Trend growth in productivity has cycled with GDP
growth until the 1990 recession

- Productivity growth led GDP growth during that time

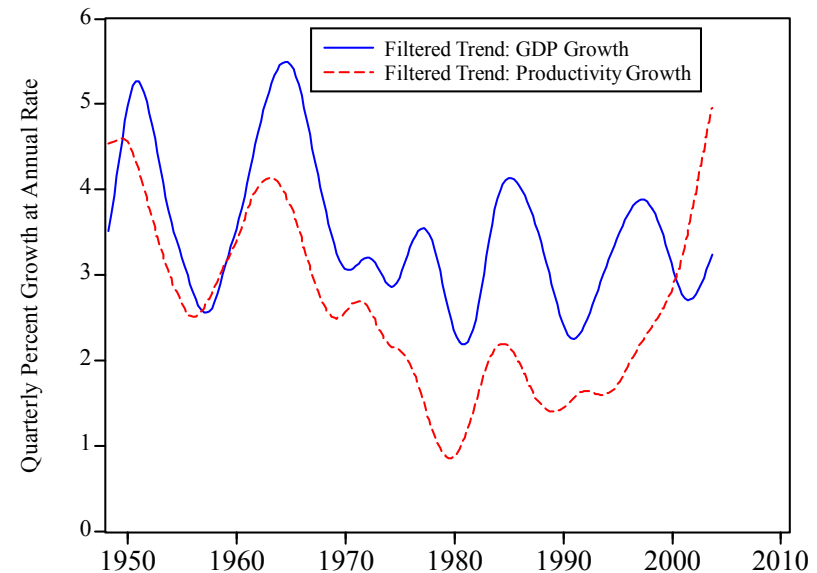
Since 1990, co-movement between GDP and
productivity has disappeared

- Upswing in productivity since mid-1990s
has been unprecedented

Employment growth roughly the difference
between GDP growth and productivity growth

- Weak employment picture attributed to
incredibly strong productivity without
similarly incredibly strong GDP growth

Public policy is nearly powerless to generate
employment gains, given the massive surge in
productivity the country is experiencing



The U.S. Cycle in Perspective

Equity Prices

2003 was the first year to post a December-to-December gain after three years of declines

Gains less pronounced so far this year

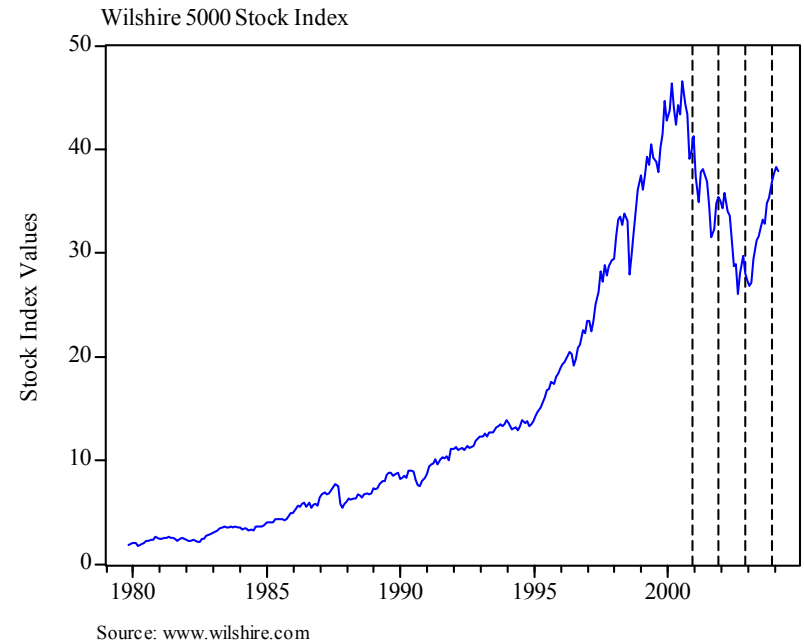
Generally, wealth effect shown to have minimal effect on spending

- Wealth loss in three previous years did not adversely affect consumer spending

Lackluster gains so far this year could be symptomatic of

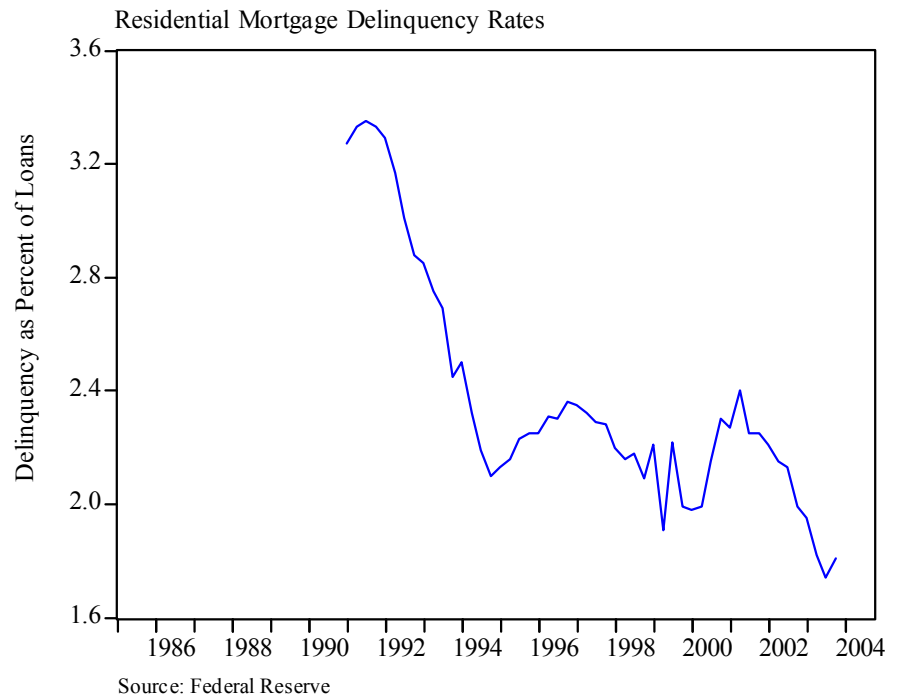
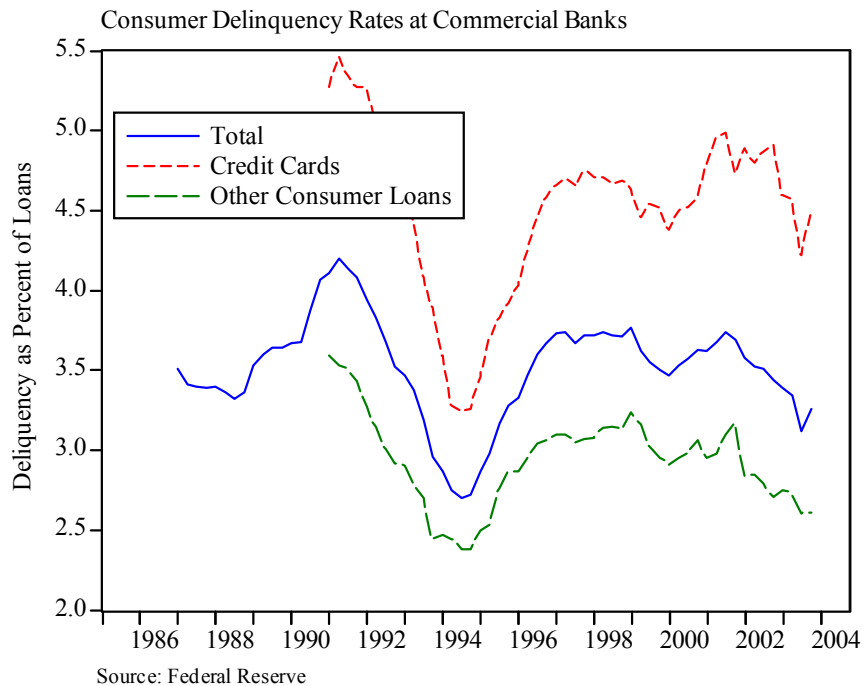
- Uncertainty over valuation of equity market
- Uncertainty over Iraq and global terrorism

Latter could pose more of a threat to outlook for 2004 than lackluster equity gains



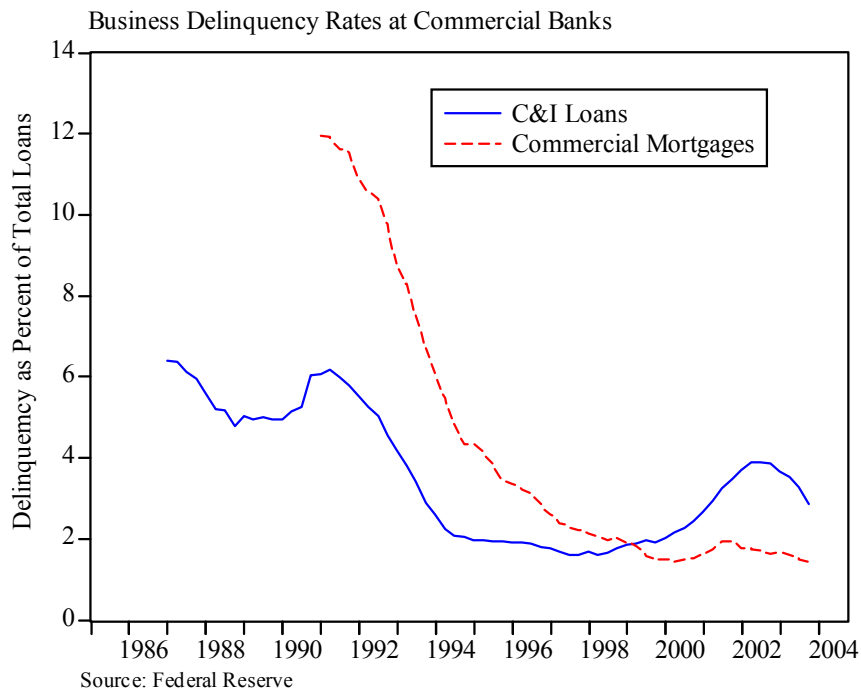
The U.S. Cycle in Perspective

Household Delinquency Rates at Commercial Banks



The U.S. Cycle in Perspective

Business Delinquency Rates at Commercial Banks



C&I loan delinquencies continue their decline

Delinquencies among commercial real estate did not turn upward during the 2000 recession

Looking forward, there is very good news in the lending area

- Bank capital is excellent—a far different condition from the aftermath of the 1990 recession
- The FOMC's liquidity injections have assured availability of loanable funds

Bottom line:

- The economy has ample ability to continue to finance the current business expansion



The U.S. Outlook

Blue Chip Financial Forecasts – Real GDP

Forecasters see solid GDP growth ahead (see chart, next page)

Consensus view for 2004

- 4.3% average quarterly growth
- This is higher than the 3.8% quarterly growth reported at the December presentation
- Growth does decelerate over the course of the year

Consensus view for first half of 2005

- 3.6% average quarterly real GDP growth

Range of projections for 2004

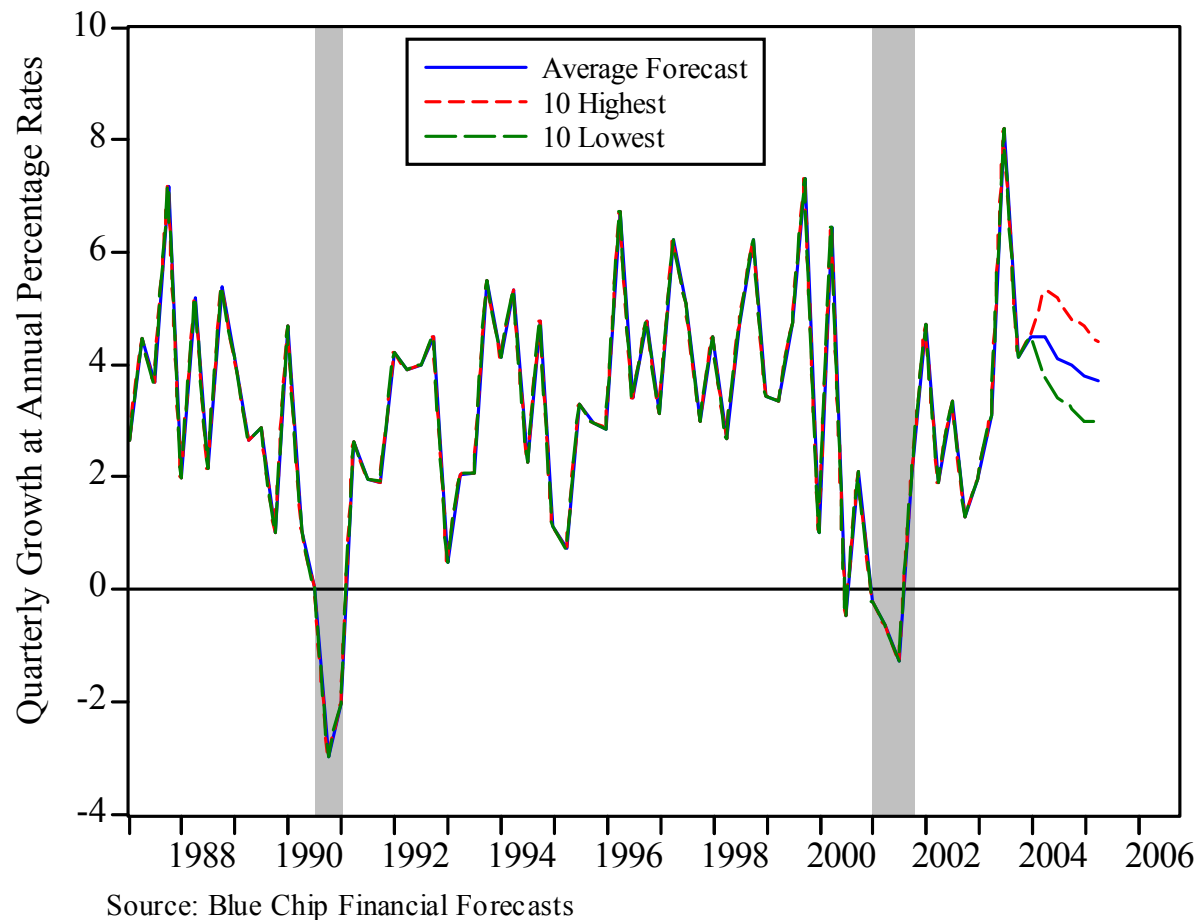
- High-end forecasts
 - 10 highest forecasts see average quarterly growth of 5.1%
 - In December, the high-end forecasts averaged 4.7%
- Low-end forecasts
 - 10 lowest forecasts see average quarterly growth of 3.6%
 - In December the low-end forecasts averaged 3.0%

First half of 2005

- High-end forecasts project growth at 4.3%
- Low-end forecasts see quarterly growth averaging 3.0%

The U.S. Outlook – Graphic Portrayal

Blue Chip Financial Forecasts – Real GDP



Baseline U.S. Outlook

Table 1

		2003				2004				2005				Year-over-Year Growth		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Gross Domestic Product	10735.8	10846.7	11107.0	11262.0	11432.9	11567.5	11716.6	11857.8	11993.2	12160.6	12345.0	12509.0	4.8	6.0	5.2
2	Change*	5.2	5.3	5.6	5.6	6.2	4.8	5.3	4.9	4.6	5.7	6.2	5.4			
3	Gross Dom. Product (96\$)	10210.4	10288.3	10493.1	10600.1	10721.1	10809.2	10901.7	10989.6	11084.9	11195.6	11312.3	11414.4	3.1	4.4	3.7
4	Change*	2.0	3.1	8.2	4.1	4.6	3.3	3.5	3.3	3.5	4.1	4.2	3.7			
5	Personal Consump. Exp. (96\$)	7244.1	7304.0	7426.6	7486.2	7562.5	7619.0	7687.7	7751.4	7810.8	7871.8	7935.1	7999.0	3.1	3.9	3.3
6	Change*	2.5	3.3	6.9	3.2	4.1	3.0	3.7	3.4	3.1	3.2	3.3	3.3			
7	Equipment and Software (96\$)	855.0	871.6	907.7	939.7	967.8	991.1	1012.8	1036.9	1060.8	1087.8	1115.5	1142.0	5.5	12.2	9.9
8	Change*	0.5	8.0	17.6	14.9	12.5	10.0	9.0	9.9	9.5	10.6	10.6	9.8			
9	Nonresid. Construction (96\$)	236.5	238.8	237.7	236.9	238.6	241.1	243.3	244.7	245.6	246.4	247.3	248.2	-4.6	1.9	2.0
10	Change*	-4.1	3.9	-1.8	-1.3	2.9	4.3	3.7	2.3	1.5	1.3	1.4	1.6			
11	Resid. Construction (96\$)	486.4	491.7	516.7	526.6	537.1	547.1	527.4	503.5	489.9	486.7	487.9	486.5	7.5	4.6	-7.8
12	Change*	4.6	4.4	21.9	7.9	8.2	7.7	-13.7	-16.9	-10.4	-2.6	1.0	-1.1			
13	Federal Defense (96\$)	433.2	472.8	471.2	474.7	479.1	486.4	494.0	497.5	502.9	511.7	518.9	522.7	10.6	5.7	5.1
14	Change*	-5.6	41.9	-1.3	3.0	3.8	6.2	6.4	2.9	4.5	7.1	5.7	2.9			
15	Fed. Nondefense (96\$)	242.4	239.3	243.1	240.8	242.8	243.3	245.7	246.5	248.6	250.0	251.9	253.3	5.3	1.3	2.6
16	Change*	10.5	-5.0	6.5	-3.7	3.4	0.8	4.0	1.4	3.5	2.1	3.1	2.4			
17	State + Local (96\$)	1193.8	1191.4	1197.4	1195.9	1200.2	1204.3	1210.2	1216.7	1224.1	1232.3	1241.0	1249.7			
18	Change*	-0.5	-0.8	2.0	-0.5	1.5	1.4	2.0	2.1	2.5	2.7	2.8	2.8	0.5	1.1	2.4
19	Net Exports ('96\$)	-490.0	-526.0	-505.2	-515.2	-526.9	-539.9	-532.3	-531.5	-526.4	-525.6	-523.2	-522.8			
20	Chg. in Bus. Invent. (96\$)	1.6	-4.5	-9.1	9.0	19.8	16.7	12.9	23.9	28.5	34.6	37.9	35.7			
21	Nonfarm Inventories	0.4	-2.5	-6.3	9.7	19.6	16.4	12.7	23.9	28.5	34.7	38.0	35.7			
22	Farm Inventories	1.2	-2.0	-2.8	-0.7	0.3	0.4	0.2	0.1	0.0	0.0	0.0	0.0			
23	GNP Deflator ('96=100) *	2.3	1.1	1.6	1.5	1.5	1.4	1.7	1.6	1.1	1.6	1.9	1.7	1.7	1.5	1.5
24	CPI (1982-84=100) *	4.0	0.4	2.4	0.7	3.9	2.8	2.5	2.7	1.6	2.7	3.0	2.2	2.3	2.4	2.4
25	PPI (1982=100) *	9.6	-1.9	3.1	3.9	3.9	-1.3	3.5	4.1	0.2	0.7	2.7	0.8	3.2	2.4	1.7

Cyclical Characteristics

Table 2

		2003				2004				2005				Year-over-Year Growth		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Domestic Final Sales ('96\$)	10698.8	10818.8	11007.4	11106.3	11228.1	11332.3	11421.1	11497.2	11582.8	11686.6	11797.5	11901.4	4.3	3.5	3.5
2	Change	1.8	4.6	7.2	3.6	4.5	3.8	3.2	2.7	3.0	3.6	3.8	3.6			
3	Cyclical Domestic Demand ('96\$)	2542.9	2607.2	2731.2	2774.0	2821.1	2861.3	2873.8	2885.5	2904.4	2931.2	2964.4	2995.0	5.6	7.4	3.1
4	Change*	0.8	10.5	20.4	6.4	7.0	5.8	1.8	1.6	2.6	3.7	4.6	4.2			
5	Cyclical Consumer Demand ('96\$)	965.0	1005.1	1069.1	1070.8	1077.6	1081.8	1090.2	1100.3	1108.1	1110.3	1113.8	1118.3	7.3	5.8	2.3
6	Change*	0.5	17.7	28.0	0.6	2.6	1.6	3.1	3.8	2.8	0.8	1.3	1.6			
7	Light Vehicles and Parts ('96\$)	414.5	429.5	466.9	456.7	454.3	450.6	457.4	466.8	472.5	468.3	465.1	464.8	4.4	3.5	2.3
8	Change*	-4.2	15.3	39.7	-8.5	-2.1	-3.3	6.2	8.5	5.0	-3.5	-2.7	-0.3			
9	Other Durables ('96\$)	550.5	575.6	602.2	614.1	623.3	631.3	632.8	633.6	635.6	642.0	648.6	653.5	9.7	7.6	2.3
10	Change*	4.3	19.5	19.8	8.1	6.1	5.2	1.0	0.5	1.3	4.1	4.2	3.0			
11	Fixed Investment ('96\$)	1577.7	1601.4	1661.0	1700.6	1743.5	1779.4	1783.5	1785.2	1796.3	1820.9	1850.7	1876.7	4.4	8.4	3.6
12	Change*	6.5	6.4	6.7	7.0	10.5	8.5	0.9	0.4	2.5	5.6	6.7	5.7			
13	Resid. Construction (96\$)	486.4	491.7	516.7	526.6	537.1	547.1	527.4	503.5	489.9	486.7	487.9	486.5	7.5	4.6	-7.8
14	Change*	4.6	4.4	21.9	7.9	8.2	7.7	-13.7	-16.9	-10.4	-2.6	1.0	-1.1			
15	Nonresid. Construction ('96\$)	236.5	238.8	237.7	236.9	238.6	241.1	243.3	244.7	245.6	246.4	247.3	248.2	-4.6	1.9	2.0
16	Change*	-4.1	3.9	-1.8	-1.3	2.9	4.3	3.7	2.3	1.5	1.3	1.4	1.6			
17	Equipment and Software ('96\$)	855.0	871.6	907.7	939.7	967.8	991.1	1012.8	1036.9	1060.8	1087.8	1115.5	1142.0	5.5	12.2	9.9
18	Change*	0.5	8.0	17.6	14.9	12.5	10.0	9.0	9.9	9.5	10.6	10.6	9.8			
19	Noncyclical Demand ('96\$)@	7667.5	7681.1	7761.9	7826.1	7899.9	7947.9	8027.9	8104.1	8180.5	8264.5	8347.8	8419.3	2.3	3.4	3.9
20	Change*	2.4	0.7	4.3	3.3	3.8	2.5	4.1	3.8	3.8	4.2	4.1	3.5			
21	Chg. in Business Inventories	1.6	-4.5	-9.1	9.0	19.8	16.7	12.9	23.9	28.5	34.6	37.9	35.7			
22	Gross Domestic Purchases ('96\$)&	10692.6	10804.4	10990.7	11109.1	11248.0	11349.1	11434.0	11521.1	11611.3	11721.3	11835.5	11937.2	3.3	4.5	3.4
23	Change*	0.4	4.3	7.3	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
24	Net Exports ('96\$)	-490.0	-526.0	-505.2	-515.2	-526.9	-539.9	-532.3	-531.5	-526.4	-525.6	-523.2	-522.8			
25	GDP ('96\$)**	10210.4	10288.3	10493.1	10600.1	10721.1	10809.2	10901.7	10989.6	11084.9	11195.6	11312.3	11414.4	3.1	4.4	3.7
	Change*	2.0	3.1	8.2	4.1	4.6	3.3	3.5	3.3	3.5	4.1	4.2	3.7			

@ Noncyclical Demand = Consumer spending on nondurable goods and services and all forms of government spending (excluding CCC inventories)

& Gross Domestic Purchases = Domestic final demand plus changes in total inventories

* Quarter-to-quarter percent changes expressed at compound annual rates

A = Actual; E = Forecasts

Except for price indexes, all data in billions of dollars

Historical sources: BEA and BLS

April 10, 2004

Household Sector

Table 3

		2003				2004				2005				Year-over-Year Growth		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Personal Income (\$ Bil.)	9048.7	9145.9	9256.3	9363.9	9470.1	9550.9	9656.5	9751.6	9862.3	9977.3	10108.5	10231.9	3.3	4.4	4.6
2	Change*	3.0	4.4	4.9	4.7	4.6	3.5	4.5	4.0	4.6	4.7	5.4	5.0			
3	Civilian Employment (Mil.)	137.4	137.6	137.6	138.4	138.7	138.9	139.2	139.6	140.0	140.5	141.0	141.4	0.9	1.0	1.2
4	Change*	2.1	0.6	0.2	2.1	0.9	0.8	0.9	1.0	1.2	1.3	1.4	1.3			
5	Unemployment Rate	5.8	6.2	6.1	5.9	5.6	5.6	5.5	5.5	5.5	5.4	5.3	5.3			
6	Personal Consump. Exp. ('96\$)	7244.1	7304.0	7426.6	7486.2	7562.5	7619.0	7687.7	7751.4	7810.8	7871.8	7935.1	7999.0	3.1	3.9	3.3
7	Change*	2.5	3.3	6.9	3.2	4.1	3.0	3.7	3.4	3.1	3.2	3.3	3.3			
8	Autos & Parts	965.0	1005.1	1069.1	1070.8	1077.6	1081.8	1090.2	1100.3	1108.1	1110.3	1113.8	1118.3	4.4	3.5	2.3
9	Change*	0.5	17.7	28.0	0.6	2.6	1.6	3.1	3.8	2.8	0.8	1.3	1.6			
10	Other Durable Goods	414.5	429.5	466.9	456.7	454.3	450.6	457.4	466.8	472.5	468.3	465.1	464.8	9.7	7.6	2.3
11	Change*	-4.2	15.3	39.7	-8.5	-2.1	-3.3	6.2	8.5	5.0	-3.5	-2.7	-0.3			
12	Nondurable Goods	550.5	575.6	602.2	614.1	623.3	631.3	632.8	633.6	635.6	642.0	648.6	653.5	3.8	5.0	4.2
13	Change*	4.3	19.5	19.8	8.1	6.1	5.2	1.0	0.5	1.3	4.1	4.2	3.0			
14	Services	2090.5	2096.9	2134.3	2162.4	2191.2	2214.5	2239.0	2261.0	2282.2	2306.8	2331.3	2355.1	2.0	2.7	3.0
15	Change*	5.7	1.2	7.3	5.4	5.4	4.3	4.5	4.0	3.8	4.4	4.3	4.1			
16	Lt. Vehicles	16.0	16.4	17.4	16.8	16.7	16.6	16.8	17.1	17.3	17.1	16.9	16.8	-0.8	0.9	1.3
17	Change*	-15.1	10.9	28.2	-12.5	-3.0	-3.8	5.6	7.7	3.8	-4.6	-3.8	-1.4			
18	New Auto Sales (Mil.)	7.7	7.5	7.7	7.5	7.5	7.4	7.5	7.6	7.7	7.6	7.5	7.5	-5.9	-1.7	1.3
19	Change*	-8.9	-9.5	11.9	-11.0	-2.9	-3.8	5.6	7.7	3.8	-4.6	-3.8	-1.4			
20	New Light Truck Sales (Mil.)	7.5	7.4	7.4	7.3	9.3	9.2	9.3	9.5	9.6	9.4	9.4	9.3	-2.6	25.6	1.3
21	Change*	-1.6	-4.5	0.1	-3.0	-0.5	-0.4	-0.8	0.6	-0.4	0.2	0.0	-0.1			
22	Private Housing Starts (Mil.)	1.737	1.739	1.884	2.031	2.273	2.028	1.966	1.903	1.841	1.869	1.837	1.806	8.0	10.6	-10.0
23	Change*	-1.4	0.5	37.9	35.0	57.0	-36.6	-11.8	-12.1	-12.5	6.3	-6.7	-6.8			
24	Single-Family	1.405	1.415	1.523	1.656	1.850	1.650	1.600	1.550	1.500	1.525	1.500	1.475			
25	Multi-Family	0.332	0.324	0.361	0.383	0.423	0.378	0.366	0.353	0.341	0.344	0.337	0.331			
26	Existing Home Sales (Th.)	5820.0	5853.3	6420.0	6296.7	6449.8	6229.8	6177.2	6117.2	6047.5	6072.6	6049.5	6023.7	9.0	2.4	-3.1
27	Change*	-0.8	-0.7	0.2	0.1	10.1	-13.0	-3.3	-3.8	-4.5	1.7	-1.5	-1.7			

Corporate Sector

Table 4

		2003				2004				2005				Year-over-Year Growth		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Fixed Business Invest.('96\$)	1087.3	1105.8	1139.5	1169.4	1206.4	1232.3	1256.2	1281.6	1306.4	1334.2	1362.8	1390.2	3.0	10.5	8.4
2	Change*	8.2	8.0	8.1	8.2	13.3	8.9	8.0	8.4	7.9	8.8	8.9	8.3			
3	Structures	236.5	238.8	237.7	236.9	238.6	241.1	243.3	244.7	245.6	246.4	247.3	248.2	-4.6	1.9	2.0
4	Change*	-4.1	3.9	-1.8	-1.3	2.9	4.3	3.7	2.3	1.5	1.3	1.4	1.6			
5	Producer Equip. & Software	855.0	871.6	907.7	939.7	967.8	991.1	1012.8	1036.9	1060.8	1087.8	1115.5	1142.0	5.5	12.2	9.9
6	Change*	0.5	8.0	17.6	14.9	12.5	10.0	9.0	9.9	9.5	10.6	10.6	9.8			
7	Chg. in Bus. Invent. ('96\$)	1.6	-4.5	-9.1	9.0	19.8	16.7	12.9	23.9	28.5	34.6	37.9	35.7			
8	Chg. in Nonfarm Inventories	0.4	-2.5	-6.3	9.7	19.6	16.4	12.7	23.9	28.5	34.7	38.0	35.7			
9	Corporate Profits (B.T.)	690.6	738.0	756.3	795.0	828.5	852.3	884.8	915.6	938.1	973.6	1017.5	1055.7			
10	Corporate Profits (A.T.)	595.0	581.0	635.4	714.5	745.7	758.5	778.6	796.5	806.8	827.6	854.7	876.2	14.8	21.9	9.3
11	Change*	2.0	-9.1	43.0	59.9	18.6	7.1	11.0	9.5	5.3	10.7	13.8	10.5			
12	Internal Funds (A.T.)	857.5	916.9	977.8	1055.3	1261.5	1292.1	1329.4	1367.8	1406.7	1450.1	1497.6	1545.7	10.0	37.9	12.4
13	Change*	-9.3	30.7	29.3	35.7	104.2	10.1	12.1	12.1	11.9	12.9	13.8	13.5			
14	Dividends	420.3	427.5	434.3	441.8	450.2	458.1	466.1	473.8	481.2	489.5	498.9	508.5	8.2	7.2	7.0
15	Change*	7.2	7.0	6.5	7.1	7.8	7.2	7.1	6.8	6.4	7.1	7.9	7.8			
16	Output Per Hour*	3.2	7.1	8.7	2.1	4.1	2.8	2.8	2.4	2.5	2.9	3.0	2.5	4.5	3.9	2.7
17	Hourly Compensation*	4.0	4.1	4.3	4.3	5.6	4.2	4.4	4.0	3.8	4.3	4.7	4.2	3.3	3.9	4.1
18	Unit Labor Costs*	1.4	-1.7	-5.5	-0.4	1.4	1.4	1.5	1.5	1.2	1.4	1.7	1.7	-1.1	0.0	1.4

International Sector

Table 5

		2003				2004				2005				Year-over-Year Growth		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Net Exports ('96\$)	-490.0	-526.0	-505.2	-515.2	-526.9	-539.9	-532.3	-531.5	-526.4	-525.6	-523.2	-522.8			
2	Exports ('96\$)	1012.4	1009.6	1033.7	1083.1	1099.0	1120.4	1144.9	1171.2	1196.4	1222.7	1248.7	1275.2	2.0	9.6	9.0
3	Change*	-2.0	-1.1	9.9	20.5	6.0	8.0	9.0	9.5	8.9	9.1	8.8	8.8			
4	Imports ('96\$)	1502.5	1535.7	1538.9	1598.3	1626.0	1660.3	1677.2	1702.8	1722.8	1748.3	1771.9	1798.0	4.0	7.9	5.6
5	Change*	-6.8	9.1	0.8	16.4	7.1	8.7	4.1	6.2	4.8	6.1	5.5	6.0			
6	Trade Weighted Index	97.8	93.4	93.1	87.9	86.2	85.9	86.2	86.7	87.2	87.7	88.2	88.6	-12.2	-7.3	2.0

Except where noted, all data in billions of dollars

Historical sources: BEA, BLS, and Federal Reserve

* Quarter-to-quarter percent changes expressed at compound annual rates

A = Actual; E = Forecasts

April 10, 2004



Outlook for Interest Rates

MTSU

Timing of the first notch up

- Forecasts of timing of Federal Reserve policy change vary as incoming data alter the market's view of the economy's strength and prospects for inflation

Market-based forecast: Futures market

- Periodic shifts in the timing of the upturn in interest rates
- With release of March's employment report (early April), the futures market shifted its view to a 50 basis point increase in the federal funds rate in August and an increase of another 25 basis points in November
- A month earlier (early March), the futures market had placed the first increase in the federal funds rate early in 2005

Blue Chip Financial Forecast consensus:

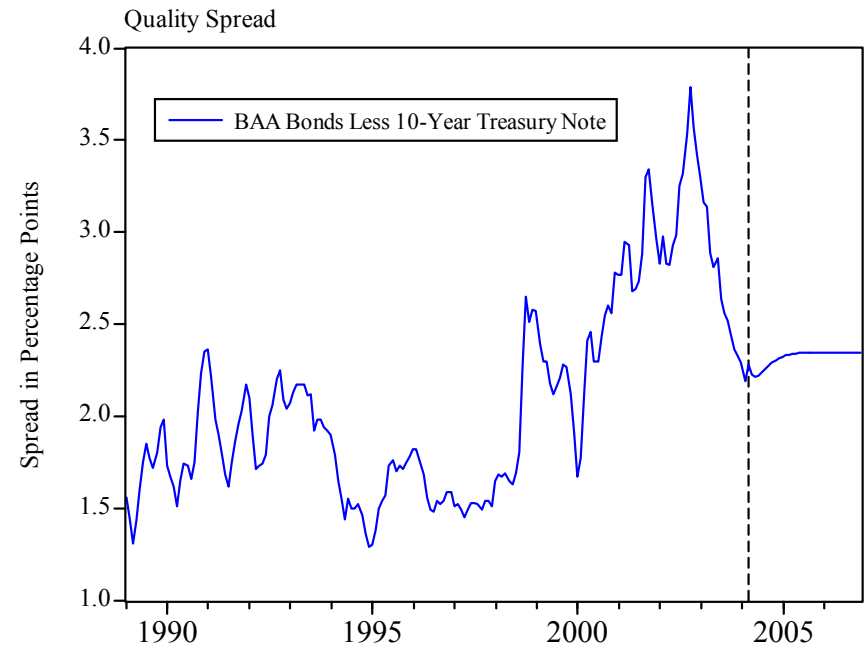
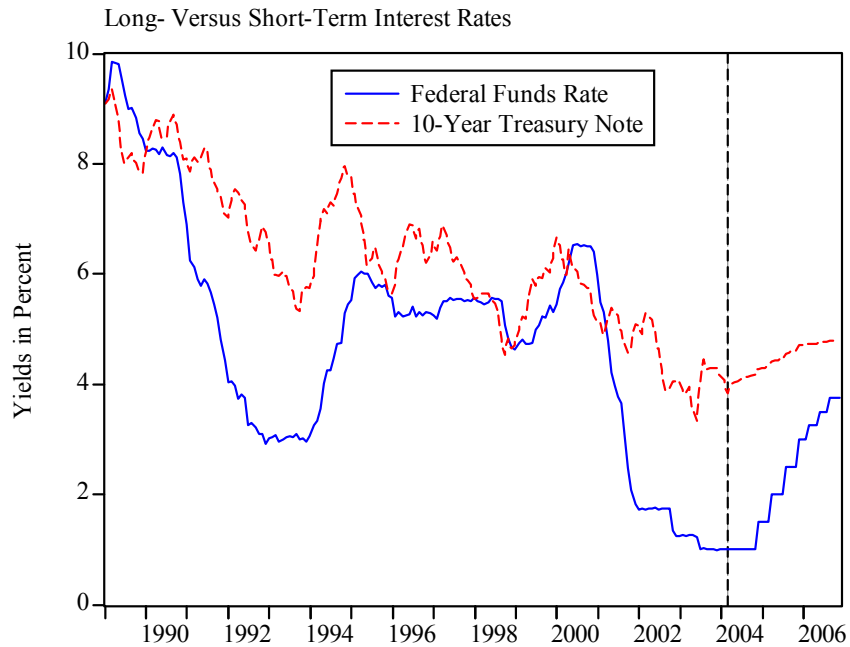
- 27% see first increase in August
- 38% see first increase in November
- 22% see first increase in December

Baseline MTSU forecast:

- No increase until the December FOMC meeting
- Increases in short-term rates will then continue throughout the forecast horizon
 - Speed of increase will balance strength of the expansion against need to drain liquidity injected during low-rate regime
- Timely removal of liquidity will keep long-term interest rates from rising during the forecast horizon
- Credit risk spreads have narrowed
 - Bankruptcy risks diminishing
 - Demand for corporate bonds rising in face of low yields on Treasury securities

Interest Rate Outlook – Graphic Portrayal

MTSU Baseline Interest Rate Forecast



Money Market Interest Rates

Table 6

		===== 2003 =====				===== 2004 =====				===== 2005 =====				Annual Averages		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
1	Federal Funds	1.25	1.25	1.02	1.00	1.00	1.00	1.00	1.17	1.50	2.00	2.33	2.67	1.13	1.04	2.13
Commercial Paper																
2	1-Month	1.23	1.16	1.02	1.02	0.99	1.05	1.09	1.28	1.60	2.11	2.45	2.79	1.11	1.10	2.24
3	3-Month	1.24	1.15	1.03	1.04	1.01	1.06	1.14	1.32	1.66	2.16	2.51	2.85	1.11	1.13	2.30
4	6-Month	1.24	1.13	1.03	1.05	1.01	1.06	1.16	1.35	1.69	2.18	2.54	2.88	1.11	1.14	2.32
Finance Paper																
5	1-Month	1.25	1.19	1.03	1.04	1.01	1.06	1.10	1.29	1.60	2.10	2.44	2.77	1.13	1.12	2.23
6	3-Month	1.25	1.16	1.04	1.06	1.02	1.07	1.15	1.33	1.67	2.17	2.52	2.86	1.13	1.14	2.31
7	6-Month	1.24	1.15	1.05	1.07	1.03	1.09	1.16	1.34	1.68	2.18	2.53	2.86	1.13	1.16	2.31
Treasury Bills																
8	1-Month	1.18	1.06	0.95	0.93	0.93	0.95	0.96	1.12	1.45	1.95	2.28	2.61	1.03	0.99	2.07
9	3-Month	1.19	1.07	1.02	1.02	1.00	1.05	1.11	1.31	1.70	2.20	2.58	2.97	1.08	1.12	2.36
Negotiable CDs																
10	1-Month	1.27	1.21	1.06	1.07	1.03	1.09	1.12	1.31	1.62	2.14	2.48	2.83	1.15	1.14	2.27
11	3-Month	1.26	1.17	1.07	1.10	1.05	1.10	1.18	1.39	1.71	2.22	2.58	2.93	1.15	1.18	2.36
12	6-Month	1.26	1.15	1.11	1.16	1.11	1.16	1.26	1.48	1.86	2.38	2.78	3.17	1.17	1.25	2.55
Eurodollar Deposit																
13	1-Month	1.26	1.20	1.05	1.06	1.02	1.07	1.10	1.28	1.60	2.11	2.45	2.79	1.14	1.12	2.24
14	3-Month	1.25	1.16	1.06	1.09	1.04	1.08	1.17	1.38	1.70	2.21	2.57	2.92	1.14	1.17	2.35
15	6-Month	1.25	1.13	1.10	1.15	1.10	1.14	1.28	1.49	1.86	2.39	2.80	3.18	1.16	1.25	2.56
Retail Bank Deposit																
16	Saving deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
17	3-Month	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
18	6-Month	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Capital Market Instruments

Table 7

		===== 2003 =====				===== 2004 =====				===== 2005 =====				Annual Averages		
		I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
U.S. Treasury Notes and Bonds																
1	1-Yr Note	1.30	1.15	1.22	1.30	1.22	1.27	1.34	1.54	1.94	2.40	2.80	3.19	1.24	1.35	2.58
2	2-Yr Note	1.65	1.42	1.68	1.86	1.69	1.80	1.93	2.15	2.54	3.02	3.39	3.76	1.65	1.89	3.18
3	5-Yr Note	2.91	2.57	3.14	3.25	2.99	3.03	3.18	3.34	3.56	3.82	4.02	4.23	2.97	3.14	3.91
4	10-Yr Note	3.92	3.62	4.23	4.29	4.02	4.03	4.11	4.20	4.30	4.43	4.53	4.63	4.02	4.09	4.47
5	30-Yr Note	4.97	4.68	5.21	5.20	4.94	4.95	5.01	4.95	5.00	5.06	5.06	5.12	5.02	4.96	5.06
Other Bonds																
6	AAA Bonds	6.00	5.31	5.70	5.66	5.46	5.46	5.57	5.68	5.81	5.95	6.06	6.17	5.67	5.54	6.00
7	BAA Bonds	7.12	6.47	6.81	6.66	6.27	6.24	6.37	6.50	6.63	6.77	6.87	6.98	6.77	6.35	6.81
8	State and Local	4.82	4.49	4.92	4.76	4.52	2.10	2.81	3.61	4.08	4.33	4.46	4.55	4.75	3.26	4.36
Consumer Rates																
9	Auto Loans - Fin Co	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10	Auto Loans - Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11	Revolving Credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12	Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mortgage Rates - Primary Mkt																
13	30-Yr (FHLMC - PMMS)	5.47	5.06	5.69	5.69	5.36	5.59	5.71	5.79	5.92	6.06	6.18	6.29	5.48	5.61	6.11
14	15-Yr (FHLMC - PMMS)	4.68	4.29	4.89	4.91	4.55	4.76	4.80	4.84	5.04	5.30	5.48	5.66	4.69	4.74	5.37
15	ARM (FHLMC - PMMS)	3.87	3.66	3.74	3.75	3.53	3.45	3.46	3.63	4.00	4.45	4.83	5.22	3.75	3.52	4.62
Mortgage Rates - Secondary Mkt																
16	30-Yr (FLHMC Req Net Yield)	5.84	5.51	6.01	5.92	5.61	2.80	3.72	4.21	4.68	5.09	5.42	5.70	5.82	4.08	5.22
17	15-Yr (FHLMC Req Net Yield)	5.20	4.87	5.34	5.25	4.90	4.79	4.89	5.02	5.20	5.42	5.60	5.77	5.16	4.90	5.50
18	GNMA (Current Coupon)	4.60	4.36	5.24	5.35	4.85	4.77	4.92	5.03	5.14	5.28	5.40	5.51	4.89	4.89	5.33
Cost of Funds Index																
19	US Average	2.75	2.56	2.36	2.26	2.18	1.89	1.64	1.63	1.82	2.22	2.47	2.75	2.48	1.83	2.32
20	11th FHLB District	2.26	2.15	1.96	1.88	2.14	1.86	1.64	1.64	1.87	2.30	2.58	2.87	2.06	1.82	2.40

Sources: Federal Reserve, Federal Home Loan Bank, Federal Home Loan Mortgage Corp
A = Actual; E = Forecasts

April 10, 2004

The Tennessee Cycle in Perspective

Personal Income – Tennessee versus U.S.

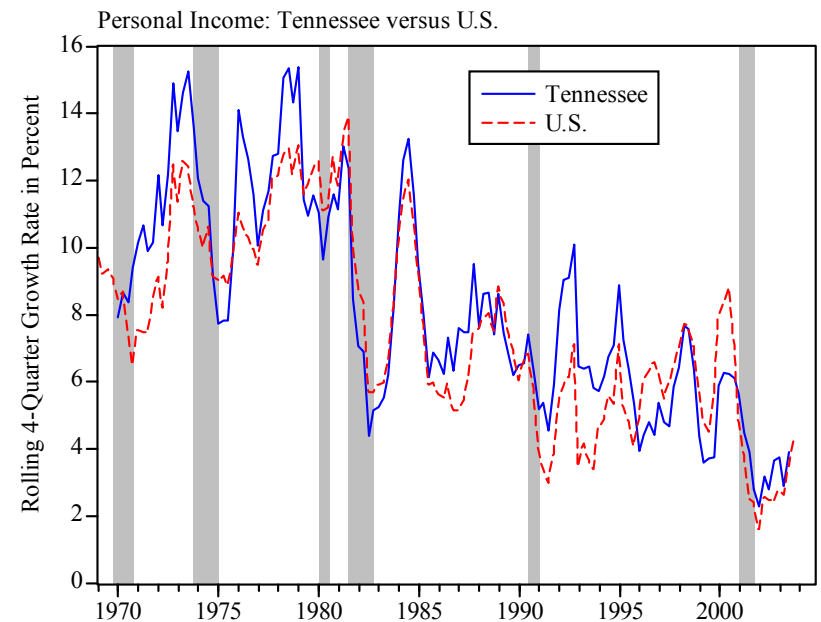
So far in this expansion, the rolling four-quarter growth of personal income for Tennessee is tracking the U.S. pattern

Quarterly growth in state and nation follows roughly the same cyclical pattern

- Each 1% growth in the U.S. is met with 1% growth in Tennessee with a lapse of about 8 quarters

Admittedly, there are sizeable short-run deviations between the two

- These differences seem to cancel out over an 8- to 9-quarter span
- Differences in the current recovery are remarkably small



Source: Bureau of Economic Analysis

The Tennessee Cycle in Perspective

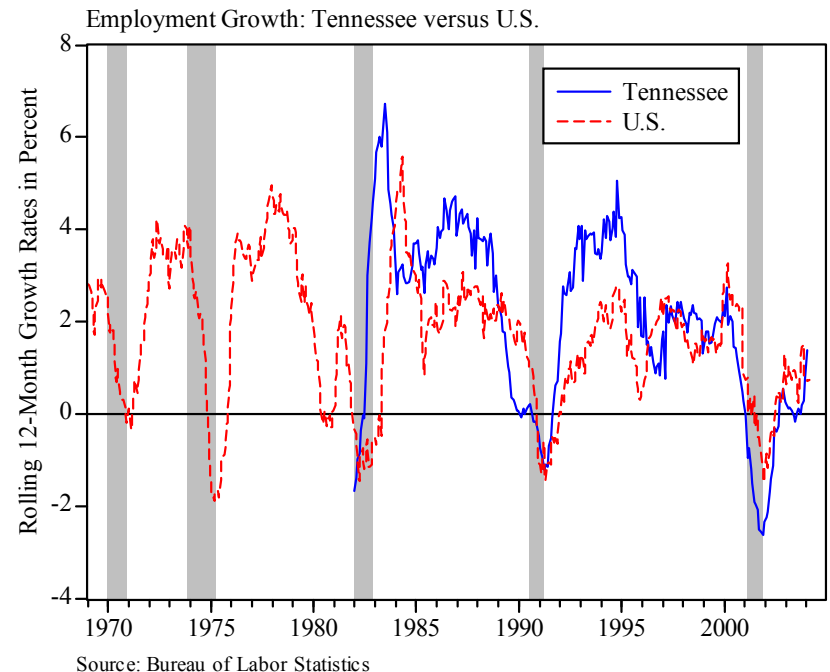
Labor Markets – Tennessee versus U.S.

Tennessee's growth pattern moves roughly in tandem with U.S. over time but differences are evident

Pattern has tighter co-movement as decline gathers momentum

In the upswing,

- Tennessee typically had a stronger employment growth than the country as a whole
- Tennessee and U.S. are moving in closer tandem in this expansion
 - Current expansion is the exception to this general pattern
 - Probably reflects further convergence of Tennessee employment structure to that of the nation as a whole



The Tennessee Cycle in Perspective

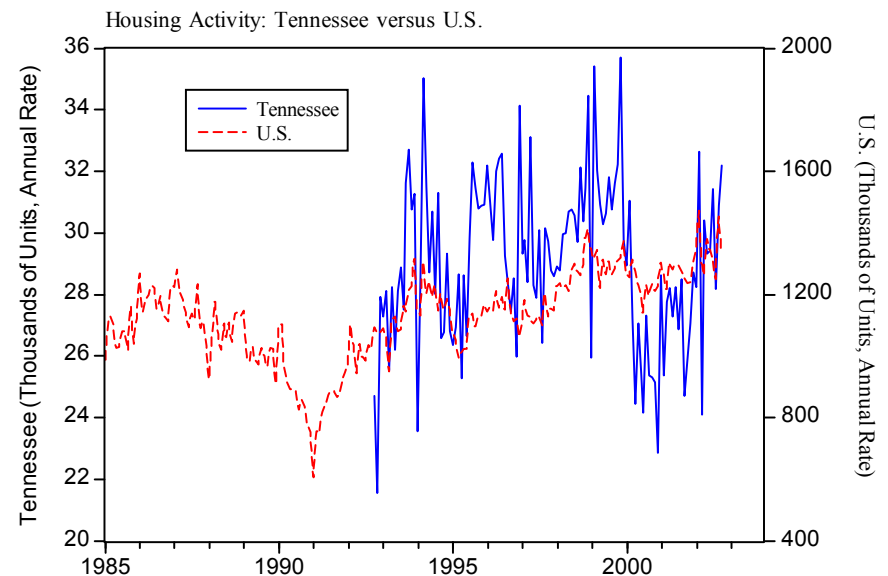
Housing Activity – Tennessee versus U.S.

Housing in Tennessee generally moves with the U.S. housing cycle but with higher volatility

- For 2002, 2003, and so far in 2004, housing in Tennessee seems to be in line with the U.S. experience
- Weakness in 2000 and 2001 seemed relatively more severe in Tennessee than in U.S.
 - Tennessee appeared to have experienced a traditional housing recession associated with an economic recession, which the U.S. avoided

Rebound in late 2002-2003 attributable to lower mortgage rates

- Because of this, many see the housing boom as largely the product of low interest rates and too strong given the pace of job growth



Source: Bureau of the Census

The Tennessee Cycle in Perspective

Consumer Spending

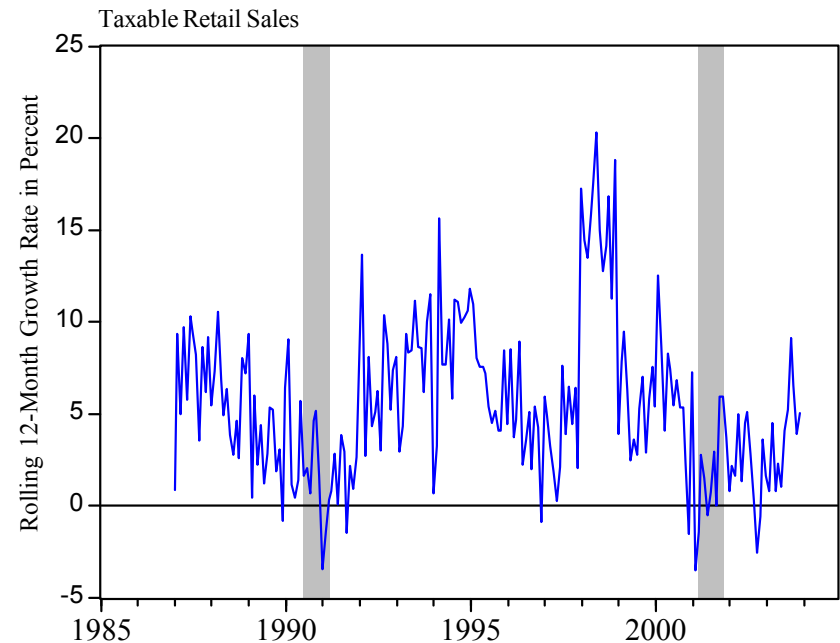
Rolling 12-month growth through December 2003 is consistent with a recovery

Current recovery: growth in taxable sales was slow longer than in the aftermath of the 1990 recession

- This reflects the lower inflation rate now compared with the aftermath of the 1990 recession

Year-over-year declines in the last recession were out of phase with prior recession

- 1990 recession: growth was weak in early phase of recovery
- 2001 recession: sales fell prior to the recession and began to grow again during the recession



Baseline Tennessee Outlook

Table 8

	2003				2004				2005				Year-over-Year Growth		
	I(A) 2003	II(A) 2003	III(A) 2003	IV(A) 2003	I(E) 2004	II(E) 2004	III(E) 2004	IV(E) 2004	I(E) 2005	II(E) 2005	III(E) 2005	IV(E) 2005	2003	2004	2005
National Trends															
1 Civilian Employment (Mil.)	137.4	137.6	137.6	138.4	138.7	138.9	139.2	139.6	140.0	140.5	141.0	141.4	0.9	1.0	1.2
2 Change*	2.1	0.6	0.2	2.1	0.9	0.8	0.9	1.0	1.2	1.3	1.4	1.3			
3 Personal Income	9048.7	9145.9	9256.3	9363.9	9470.1	9550.9	9656.5	9751.6	9862.3	9977.3	10108.5	10231.9	3.3	4.4	4.6
4 Change*	3.0	4.4	4.9	4.7	4.6	3.5	4.5	4.0	4.6	4.7	5.4	5.0			
5 Income Per Employee (T)	65.864	66.474	67.247	67.673	68.294	68.743	69.351	69.857	70.442	71.028	71.709	72.349	2.3	3.4	3.4
6 Change*	0.9	3.8	4.7	2.6	3.7	2.7	3.6	3.0	3.4	3.4	3.9	3.6			
7 Housing Start (Mil. of Units)	1.737	1.739	1.884	2.031	2.273	2.028	1.966	1.903	1.841	1.869	1.837	1.806	8.0	10.6	-10.0
8 Change*	-1.4	0.5	37.9	35.0	57.0	-36.6	-11.8	-12.1	-12.5	6.3	-6.7	-6.8			
Tennessee															
9 Nonagricultural Employment (T)	2659.9	2661.4	2669.3	2677.4	2691.1	2700.4	2707.8	2714.7	2722.2	2731.6	2742.0	2751.6	0.1	1.4	1.2
10 Change*	-2.0	0.2	1.2	1.2	2.1	1.4	1.1	1.0	1.1	1.4	1.5	1.4			
11 Personal Income	162.3	163.4	165.5	167.5	169.7	171.5	173.5	175.4	177.5	179.7	182.1	184.4	3.7	4.8	4.9
12 Change*	4.7	2.9	5.2	4.8	5.4	4.3	4.8	4.4	4.9	5.1	5.5	5.2			
13 Dividends & Interest	24.0	23.8	23.7	23.8	23.9	24.2	24.5	24.8	25.1	25.5	25.9	26.2	-1.7	2.2	5.6
14 Change*	-2.0	-3.5	-1.3	1.0	3.1	3.9	5.0	5.3	5.8	6.0	6.1	5.8			
15 Income Per Employee (T)	61.003	61.399	62.000	62.548	63.051	63.501	64.076	64.611	65.201	65.782	66.418	67.031	3.6	3.4	3.6
16 Change*	6.8	2.6	4.0	3.6	3.3	2.9	3.7	3.4	3.7	3.6	3.9	3.7			
17 Rerail Sales	67.1	67.6	70.4	70.1	71.5	72.4	73.5	74.4	75.5	76.7	78.1	79.4	3.7	6.0	6.1
18 Change*	2.5	3.2	17.8	-2.0	8.1	5.3	6.2	5.4	5.8	6.8	7.1	6.7			
19 Building Permits (T)	29.071	31.095	34.845	36.052	36.422	34.318	32.951	31.956	31.497	32.285	31.769	31.251	10.1	3.5	-6.5
20 Change*	-20.1	30.9	57.7	14.6	4.2	-21.2	-15.0	-11.5	-5.6	10.4	-6.2	-6.4			

Note: Except where noted, all data in billions of dollars. Historic sources: BEA, BLS, State of Tennessee

T=Thousands of units, persons, or dollars

* Quarter-to-quarter percent changes expressed at compound annual rates.

April, 13, 2004

Prospects for Tax Revenue: MTSU Forecast (December 2003)

Table 9

Tennessee Economic Assumptions (Fiscal-Year Basis)

----Forecasts----

	FY90-91	FY91-92	FY92-93	FY93-94	FY94-95	FY95-96	FY96-97	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05
1 Personal Income (Bil \$)	84.4	90.3	97.4	103.3	111.1	116.6	122.3	129.8	136.9	143.6	151.6	156.2	161.3	168.1	176.0
2 Chg@	6.1	6.9	8.0	6.0	7.5	5.0	4.8	6.2	5.4	4.9	5.6	3.0	3.3	4.2	4.7
3 Nonagricultural Employments (Mil)	2.2	2.2	2.3	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
4 Chg@	0.0	1.2	3.5	3.8	3.9	2.2	1.4	2.1	1.9	2.0	0.2	-2.0	0.1	0.4	1.0
5 Income Per Employee (Th \$)	38.7	40.9	42.6	43.5	45.0	46.3	47.8	49.7	51.4	52.9	55.8	58.6	60.5	62.7	65.0
6 Chg@	6.3	5.7	4.3	2.2	3.5	2.7	3.4	3.9	3.5	2.8	5.4	5.1	3.2	3.7	3.7
7 Retail Sales (Bil \$)	33.7	35.2	37.6	40.7	44.5	46.8	48.3	53.5	58.8	62.6	64.1	65.9	66.9	71.3	75.0
8 Chg@	1.2	4.5	6.8	8.3	9.3	5.3	3.1	10.8	9.9	6.5	2.4	2.9	1.6	6.5	5.2
9 Building Permits (Th of Units)	0.0	0.0	26.4	30.1	27.6	31.3	29.2	29.4	31.2	29.7	26.3	28.0	30.2	33.2	29.5
10 Chg@	0.0	0.0	0.0	13.9	-8.2	13.5	-6.8	0.7	6.0	-4.7	-11.4	6.4	8.0	9.7	-11.2

Revenue Forecasts

11 Total Tax Revenue*	4215.6	4431.4	5441.5	5505.5	5767.1	6071.7	6415.1	6791.0	7030.3	7558.5	7636.3	7508.6	8505.3	8870.3	9255.7
12 Chg@	1.0	5.1	22.8	1.2	4.8	5.3	5.7	5.9	3.5	7.5	1.0	-1.7	13.3	4.3	4.3
13 Sales and Use Tax*	2354.3	2540.7	3444.2	3370.2	3477.0	3673.8	3906.7	4102.7	4337.3	4608.3	4642.7	4654.7	5455.2	5807.4	6066.1
14 Chg@	0.8	7.9	35.6	-2.1	3.2	5.7	6.3	5.0	5.7	6.2	0.7	0.3	17.2	6.5	4.5
15 Income Tax*	97.0	93.2	95.0	100.3	101.3	114.5	128.9	160.4	160.6	180.2	198.6	144.5	116.8	120.9	128.9
16 Chg@	-5.8	-4.0	1.9	5.6	1.0	13.0	12.6	24.5	0.1	12.2	10.2	-27.2	-19.2	3.6	6.6
17 Gross Receipts Tax*	163.4	166.1	166.7	165.6	180.6	175.9	189.0	188.4	199.3	213.5	216.8	223.9	216.3	225.3	227.2
18 Chg@	2.0	1.6	0.3	-0.7	9.0	-2.6	7.4	-0.3	5.8	7.1	1.5	3.3	-3.4	4.2	0.8
19 Excise plus Franchise Taxes*	550.0	532.8	605.5	677.9	777.0	816.1	888.5	913.8	893.4	1074.3	1112.1	968.4	1085.0	1050.3	1117.1
20 Chg@	4.6	-3.1	13.6	12.0	14.6	5.0	8.9	2.8	-2.2	20.3	3.5	-12.9	12.0	-3.2	6.4
21 Gasoline Tax*	489.3	504.7	491.0	552.6	528.3	535.9	543.3	563.2	567.9	576.6	569.4	576.9	600.9	600.1	606.0
22 Chg@	-1.8	3.2	-2.7	12.6	-4.4	1.4	1.4	3.7	0.8	1.5	-1.3	1.3	4.2	-0.1	1.0
23 Vehicle Registration*	141.3	147.2	155.8	165.6	179.5	185.2	184.2	196.5	201.5	219.3	212.1	221.2	226.8	237.4	249.0
24 Chg@	-3.1	4.2	5.9	6.3	8.4	3.1	-0.5	6.6	2.6	8.8	-3.3	4.3	2.5	4.7	4.9
25 Fuel Tax*	97.7	100.1	105.0	111.2	122.2	126.7	126.8	133.2	142.5	152.8	146.8	151.2	154.8	159.5	164.8
26 Chg@	4.1	2.5	4.9	5.9	9.9	3.7	0.1	5.0	7.0	7.2	-3.9	3.0	2.4	3.1	3.3
27 Privilege Tax*	69.3	94.1	109.0	125.6	123.8	139.9	150.7	171.0	191.9	186.6	190.1	207.9	248.6	259.1	273.6
28 Chg@	-8.6	35.7	15.8	15.3	-1.4	12.9	7.8	13.4	12.2	-2.8	1.9	9.4	19.6	4.2	5.6
29 All Other Taxes*	253.3	252.5	269.4	236.4	277.3	303.7	296.8	361.8	335.9	346.9	347.7	359.9	401.0	410.2	423.1
30 Chg@	7.7	-0.3	6.7	-12.3	17.3	9.5	-2.3	21.9	-7.2	3.3	0.2	3.5	11.4	2.3	3.1

* Millions of dollars

@ Annual Percent Change

Annual economic data in lines 1, 3, 5, 7, and 9 are calculated in terms of fiscal years ending in 1Q of the calendar year of the noted fiscal year

December 8, 2003

Prospects for Tax Revenue: MTSU Forecast (April 2004)

Table 10

Tennessee Economic Assumptions (Fiscal-Year Basis)

----Forecasts----

	FY90-91	FY91-92	FY92-93	FY93-94	FY94-95	FY95-96	FY96-97	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04	FY04-05
1 Personal Income (Bil \$)	84.4	90.3	97.4	103.3	111.1	116.6	122.3	129.8	136.9	143.6	151.6	156.2	161.3	168.5	176.5
2 Chg@	6.1	6.9	8.0	6.0	7.5	5.0	4.8	6.2	5.4	4.9	5.6	3.0	3.3	4.5	4.7
3 Nonagricultural Employments (Mil)	2.2	2.2	2.3	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
4 Chg@	0.0	1.2	3.5	3.8	3.9	2.2	1.4	2.1	1.9	2.1	0.2	-2.0	0.1	0.7	1.3
5 Income Per Employee (Th \$)	38.7	40.9	42.6	43.5	45.0	46.3	47.8	49.7	51.5	52.9	55.8	58.6	60.5	62.8	64.9
6 Chg@	6.3	5.7	4.3	2.2	3.5	2.7	3.4	3.9	3.5	2.8	5.4	5.2	3.2	3.7	3.4
7 Retail Sales (Bil \$)	33.7	35.2	37.6	40.7	44.5	46.8	48.3	53.5	58.8	62.6	64.1	65.9	66.9	71.1	75.0
8 Chg@	1.2	4.5	6.8	8.3	9.3	5.3	3.1	10.8	9.9	6.5	2.4	2.9	1.6	6.2	5.5
9 Building Permits (Th of Units)	0.0	0.0	26.4	30.1	27.6	31.3	29.2	29.4	31.2	29.7	26.3	28.0	30.2	35.4	32.2
10 Chg@	0.0	0.0	0.0	13.9	-8.2	13.5	-6.8	0.7	6.0	-4.8	-11.4	6.5	8.0	17.1	-9.1

Revenue Forecasts

11 Total Tax Revenue*	4215.6	4431.4	5441.5	5505.5	5767.1	6071.7	6415.1	6791.0	7030.3	7558.5	7636.3	7508.6	8505.3	9006.5	9398.9
12 Chg@	1.0	5.1	22.8	1.2	4.8	5.3	5.7	5.9	3.5	7.5	1.0	-1.7	13.3	5.9	4.4
13 Sales and Use Tax*	2354.3	2540.7	3444.2	3370.2	3477.0	3673.8	3906.7	4102.7	4337.3	4608.3	4642.7	4654.7	5455.2	5771.0	6057.8
14 Chg@	0.8	7.9	35.6	-2.1	3.2	5.7	6.3	5.0	5.7	6.2	0.7	0.3	17.2	5.8	5.0
15 Income Tax*	97.0	93.2	95.0	100.3	101.3	114.5	128.9	160.4	160.6	180.2	198.6	144.5	116.8	128.9	134.8
16 Chg@	-5.8	-4.0	1.9	5.6	1.0	13.0	12.6	24.5	0.1	12.2	10.2	-27.2	-19.2	10.3	4.6
17 Gross Receipts Tax*	163.4	166.1	166.7	165.6	180.6	175.9	189.0	188.4	199.3	213.5	216.8	223.9	216.3	224.7	228.1
18 Chg@	2.0	1.6	0.3	-0.7	9.0	-2.6	7.4	-0.3	5.8	7.1	1.5	3.3	-3.4	3.9	1.5
19 Excise plus Franchise Taxes*	550.0	532.8	605.5	677.9	777.0	816.1	888.5	913.8	893.4	1074.3	1112.1	968.4	1085.0	1199.7	1243.5
20 Chg@	4.6	-3.1	13.6	12.0	14.6	5.0	8.9	2.8	-2.2	20.3	3.5	-12.9	12.0	10.6	3.7
21 Gasoline Tax*	489.3	504.7	491.0	552.6	528.3	535.9	543.3	563.2	567.9	576.6	569.4	576.9	600.9	594.1	605.6
22 Chg@	-1.8	3.2	-2.7	12.6	-4.4	1.4	1.4	3.7	0.8	1.5	-1.3	1.3	4.2	-1.1	1.9
23 Vehicle Registration*	141.3	147.2	155.8	165.6	179.5	185.2	184.2	196.5	201.5	219.3	212.1	221.2	226.8	238.4	246.3
24 Chg@	-3.1	4.2	5.9	6.3	8.4	3.1	-0.5	6.6	2.6	8.8	-3.3	4.3	2.5	5.1	3.3
25 Fuel Tax*	97.7	100.1	105.0	111.2	122.2	126.7	126.8	133.2	142.5	152.8	146.8	151.2	154.8	167.9	172.8
26 Chg@	4.1	2.5	4.9	5.9	9.9	3.7	0.1	5.0	7.0	7.2	-3.9	3.0	2.4	8.5	3.0
27 Privilege Tax*	69.3	94.1	109.0	125.6	123.8	139.9	150.7	171.0	191.9	186.6	190.1	207.9	248.6	271.2	287.2
28 Chg@	-8.6	35.7	15.8	15.3	-1.4	12.9	7.8	13.4	12.2	-2.8	1.9	9.4	19.6	9.1	5.9
29 All Other Taxes*	253.3	252.5	269.4	236.4	277.3	303.7	296.8	361.8	335.9	346.9	347.7	359.9	401.0	410.8	422.9
30 Chg@	7.7	-0.3	6.7	-12.3	17.3	9.5	-2.3	21.9	-7.2	3.3	0.2	3.5	11.4	2.5	2.9

* Millions of dollars

@ Annual Percent Change

Annual economic data in lines 1, 3, 5, 7, and 9 are calculated in terms of fiscal years ending in 1Q of the calendar year of the noted fiscal year

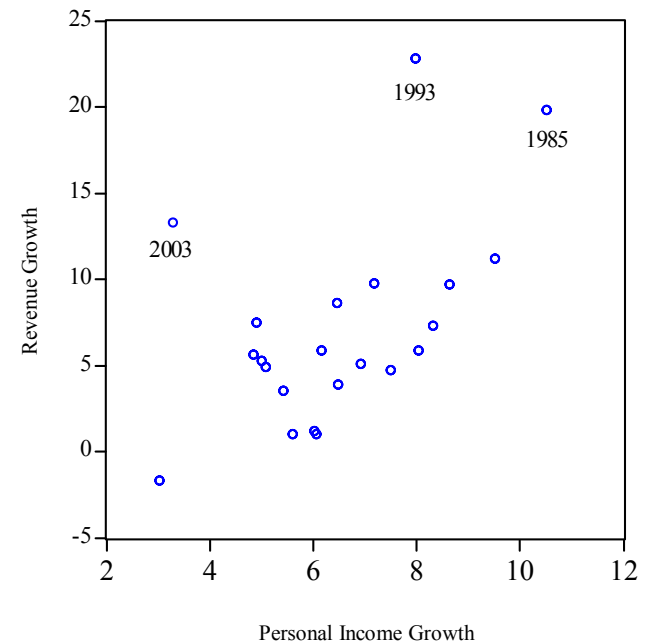
April 13, 2004

A Consistency Check

Top-down forecasting model projects growth in tax revenue based on personal income growth, controlling for tax rate changes in 1985, 1993, and 2003

Based on personal income projections, the consistency check is below

	FY2001	FY2003	FY2004	FY2005
Personal Income Growth	3.0	3.3	4.5	4.7
Revenue Growth	-1.7	13.2	3.2	3.4
Revenue (Millions of Dollars)	\$7,508.6	\$8,502.7	\$8,772.2	\$9,067.7





Contingency Views

Balancing the Risks

Probabilities

- Stronger growth 25%
- Baseline 50%
- Weaker growth 25%

Tilting the balance to weak-growth scenario: Asymmetric cost of forecast errors

- Lower than projected tax revenue is a bigger problem for the state than higher than projected tax revenue
- *Risk scenario*
 - Faltering U.S. growth with spillover effects to Tennessee
 - Personal income growth in Tennessee is 2 percent less in 2004 and 2005

The risk outlook, based on the consistency model, is reported in the adjacent panel

Had a line-by-line forecast been made, revenue growth would be a bit stronger in both years

- To illustrate this, difference between the consistency view and the top down contingency view is applied to the line-by-line forecast.
- This is also reported in the adjacent panel

Risk outlook based on consistency model

	FY2001	FY2003	FY2004	FY2005
Personal Income Growth	3.0	3.3	4.0	2.7
Revenue Growth	-1.7	13.2	3.0	1.2
Revenue (Millions of Dollars)	\$7,508.6	\$8,502.7	\$8,757.78	\$8,863.82

Risk outlook based on adjusted line-by-line forecast model

	FY2001	FY2003	FY2004	FY2005
Personal Income Growth	3.0	3.3	4.0	2.7
Revenue Growth	-1.7	13.2	5.0	2.1
Revenue (Millions of Dollars)	\$7,508.6	\$8,502.7	\$8,927.84	\$9,115.3195



The U.S. Outlook – Problem Areas

Monitoring the Likelihood of Weaker Than Projected Growth

Winning the peace

- Military resistance in Iraq is intensifying as the handover of power approaches
- Local warlords may be appearing; if not countered, these could threaten civil war
- Iran continues to foster unrest in Iraq; latest is its support of fanatical cleric

Domestic effects

- May be felt in the U.S. in terms of spending decision by households and businesses
 - Equity market is sustainable
 - Uncertainty can produce economic paralysis, weakening the upswing
 - Decision paralysis could drag down vehicle sales and housing

Pricing power

- Global capacity limits ability of manufacturing to secure price increases, which affects ability to manage earnings
- Prices of goods less energy (CPI basis) fell 3.8 percent rate over the last 24 months versus a 6.2 percent increase for services less energy (CPI basis)

Profits

- Profit boost in 2003 largely from productivity gains
- It is unlikely that big productivity gains can boost profits indefinitely
- Pricing power in manufacturing sector may be crucial to continued profit improvement

Employment

- Wrenching technology-driven shift in employment growth
- But the good news is the tremendous boost in productivity

The dollar

- Weakness is seemingly sought by administration to bolster exports
- Depreciating dollar reduces the foreign value of investments in U.S.
- This reduces appetite for U.S. investments by foreigners

Housing and vehicle sales

- Neither fell during the recession
- Risk that “pre-spending” occurred



The U.S. Outlook – Problem Areas

Monitoring the Likelihood of Weaker than Projected Growth

Global conditions

- Divisive political climate between U.S. and its allies/trading partners
- Global growth has improved but is not robust, widespread or uniform in strength
- Robust global growth is still a forecast; widespread signs of better times are still elusive
- Record U.S. trade deficit
- Weak and weakening dollar
- Depreciating dollar adversely affects foreign value of dollar assets and discourages flow of dollar back to U.S.

Domestic signs

- Manufacturing remains weak, though industrial production is rising
- Employment growth is lethargic
- Large-scale excess capacity here and abroad
- Lack of corporate pricing power
- CPI deflation in goods component less energy and food
- Housing and vehicle sales artificially supported by low interest rates
- Defined-benefit pensions remain underfunded but are attracting less political attention
- Health-care costs are impacting earnings and are a growing political issue